

OUTLOOK

A Publication of the South Dakota Retirement System

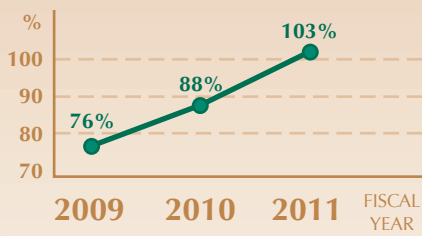
Number 1 2012

Strong investment earnings move COLA to 3.1%

Strong investment earnings over the past two years, coupled with the corrective action taken by the Board of Trustees in 2010, have restored SDRS to a fully funded status. "Since SDRS' funded status tops 100 percent," says Elmer Brinkman, chair of the SDRS Board of Trustees, "on July 1, 2012 the system will raise the cost-of-living adjustment (COLA) to 3.1 percent, the maximum amount permitted under South Dakota law."

In 2010, lawmakers passed a Board-sponsored bill that linked the rate of the COLA's annual increase to SDRS' financial strength. When the system is 100 percent funded (when assets are equal to all its benefit obligations), SDRS pays the maximum COLA of 3.1 percent.

SDRS' funded ratio rises over past three years



However, if the system's funded status falls below 100 percent, the law reduces the amount of increase in SDRS' COLA. The reductions are based on the following schedule:

- If the funded status is between 90 and 100 percent, the COLA is equal to the rate of inflation up to a maximum of 2.8 percent.
- If the funded status falls between 80 and 90 percent, the COLA matches the rate of inflation up to a maximum of 2.4 percent.
- If the funded status slides below 80 percent, the COLA is 2.1 percent no matter what the rate of inflation.

At minimum – regardless of the system's funded status or the rate of inflation – the COLA increases annually by at least 2.1 percent.

This year, retirees are seeing an increase in Social Security as well as the SDRS COLA. For the first time since 2009, third quarter measures of the Consumer Price Index (CPI) showed an increase, triggering a COLA that expands Social Security payments by 3.6 percent.

Securing SDRS' fiscal health

SDRS is unusual among pension plans in that it uses investment earnings over 7.75 percent, the amount needed to pay benefits, to create a reserve. It then uses the reserve to buffer losses in a market downturn and to pre-pay benefit improvements. "A distinguishing feature of SDRS is its commitment to raise benefits only when it has sufficient assets to pay for them," says Rob Wylie, Executive Director / Administra-

tor of SDRS. "It's one of the risk-reducing policies that distinguishes SDRS from systems that are now in financial trouble."

According to Board policy, SDRS must have a funded ratio of at least 123 percent of the market value of the assets, after consideration of the cost of the benefit improvement, before the Board will consider recommending a benefit improvement. "That means that SDRS must have 23 percent more money in our trust fund than is needed to pay

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A comparison of Social Security and SDRS COLA increases

YEAR	Social Security	SDRS
2012	3.6	3.1
2011	0	2.1
2010	0	2.1
2009	5.8	3.1
2008	2.3	3.1
2007	3.3	3.1
2006	4.1	3.1
2005	2.7	3.1
2004	2.1	3.1
2003	1.4	3.1
2002	2.6	3.1
2001	3.5	3.1
2000	2.5	3.1
1999	1.3	3.1
1998	2.1	3.1
1997	2.9	3.1
1996	2.6	3.1



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2012 proposed legislation

The SDRS Board of Trustees is recommending three proposals for consideration by the 2012 South Dakota Legislature.

The first would permit 457 plans, such as the SDRS Supplemental Retirement Plan (SRP), to offer Roth contribution programs. Roth-designated accounts for governmental plans were authorized by the Small Business Jobs Act of 2010, and SDRS is presenting legislation for approval to add this as an elec-

tive savings alternative. Roth accounts are funded with after-tax dollars, can grow without taxes on gains or interest and, if meeting qualifications, are not taxed upon distribution.

The second proposal would establish an alternative benefit enhancement methodology, based on investment performance, that mitigates risk within the South Dakota Retirement System. The enabling legislation would allow the SDRS Board of Trustees to define

the conditions, standards and procedures relating to the alternative benefit enhancement methodology in administrative rule.

The third is a technical corrections bill to correct and clarify existing statutes pertinent to SDRS in order to bring them up to date. As an example, this legislation revises the definition of firemen to firefighters, policemen to police officers and patrolman to patrol officer, as well as other clarifying cross references within the statutes.

Copies of proposed SDRS 2012 legislation are posted on the SDRS website at www.sdrs.sd.gov

Strong Investment Earningscontinued from page 1

all benefits under the current formulas before we even consider an improvement," says Wylie.

While investment returns in the past two years have put SDRS over the fully funded mark and brought the COLA back to its maximum level, the system has a long way to go to build up its reserve. "Our goal is sustainability," says Wylie. "We want to be sure that we can keep the benefit levels we have right now through the ups and downs of volatile financial markets – and that will take discipline, patience and probably a bit of time."

SDRS' funded ratio well above retirement system average

	June 30, 2010		June 30, 2011	
	SDRS	Average*	SDRS	Average*
Funded Ratio (Actuarial Value of Assets)	96%	76%	96%	75%
Funded Ratio (Market Value of Assets)	88%	66%	103%	76%

The result of long-term favorable experience, SDRS' funded status exceeds that of virtually all other statewide, public retirement systems.

*Wilshire Associates State Retirement Plan Funding Report for statewide public systems. 2011 averages estimated by Buck Consultants.